

AUSTIN ENERGY'S TARIFF PACKAGE: §
2015 COST OF SERVICE § BEFORE THE CITY OF AUSTIN
STUDY AND PROPOSAL TO CHANGE § IMPARTIAL HEARING EXAMINER
BASE ELECTRIC RATES §

**AUSTIN ENERGY'S SUPPLEMENTAL RESPONSE TO
THE INDEPENDENT CONSUMER ADVOCATE'S
FOURTH REQUEST FOR INFORMATION**

Austin Energy ("AE") files this Supplemental Response to The Independent Consumer Advocate's ("ICA") Request for Information No. 4-9.

Respectfully submitted,

**LLOYD GOSSELINK ROCHELLE &
TOWNSEND, P.C.**

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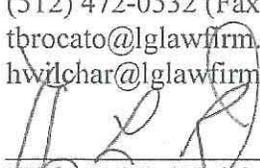
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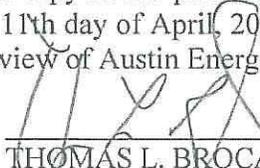
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ATTORNEYS FOR AUSTIN ENERGY

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of this pleading has been served on all parties and the Impartial Hearing Examiner on this 11th day of April, 2016, in accordance with the City of Austin Procedural Rules for the Initial Review of Austin Energy's Rates.



THOMAS L. BROCATO

AUSTIN ENERGY
2016 APR 12 AM 8:50

ICA 4-9

- A. Does the cost of service include debt service and principal associated with construction work in progress and plant held for future use?
- B. If yes, please provide the rationale and basis for including the cost, given that CWIP and PHFU are not used and useful.
- C. If yes, what annual amount of the debt cost would be allocated to CWIP and PHFU if the same allocation method applied to functionalized plant in service had been applied to CWIP and PHFU.

SUPPLEMENTAL ANSWER:

- A. Yes.
- B. Austin Energy's CWIP is a significant investment worth over \$100 million or 4% of its electric rate base in FY2014 and represents a large and continuous investment that allows Austin Energy to provide reliable, efficient and economic service. Austin Energy relies solely on revenues from its customers to provide funds for debt service and does not have access to investor funds like investor owned utilities (IOUs) have. Consequently, recovery of debt service on CWIP is requisite to maintaining financial integrity.

Commission precedent authorizes inclusion of plant held for future use (PHFU) in rate base. Workpaper B-6 (Plant Held for Future Use) lists two properties included in the retail rate base: Western Coal Generating Plant (Webberville) and Toyah land. The remaining properties are transmission related, are properly recovered from load serving entities within ERCOT and excluded from the retail revenue requirement. A summary of the plans for non-transmission PHFU is included below:

Austin Energy has well-established and public renewable goals. Specifically, the Austin Energy Resource, Generation and Climate Protection Plan to 2025 requires Austin Energy to achieve 950 MW of solar resources by 2025. Embedded in this goal is the requirement that Austin Energy add approximately 150 MW of new locally-sited solar resources both at the distributed level and at a utility scale by 2025 (in addition to the current 50 MW already in place). The Western Coal Generating property is a prime site for Austin Energy to meet the 150 MW locally-sited requirement. In 2010 Austin Energy used a portion of the Webberville property that was previously held as PHFU to develop solar resources. Similarly, the Toyah property is a vital property for helping AE meet the remaining 750 MW balance. Accordingly, these resources are likely to be needed within the next ten years.

In addition to the discussion above, unlike investor owned utilities, there are numerous restrictions that apply to Austin Energy that serve to eliminate concerns that PHFU or CWIP may be used as a means to circumvent the used and useful requirement. Specifically, the assets in question are part of Austin Energy's 5-year CIP which is approved by City

Council each year. In addition, City Council approves Austin Energy's annual budget each year that implements the CIP. Thirdly, any payment by Austin Energy in excess of \$58,000 must be approved separately by City Council even if it has previously been approved as part of the CIP. In summary, all costs are subject to review three times before they are booked to CWIP or PHFU. Finally, City Council has the authority to disallow costs in a future rate case.

- C. The same functionalization methodology was applied to debt service on CWIP and PHFU as was Plant in Service. Debt service attributed to CWIP is found on line 4 on WP C-3.1 in the RFP. Debt service on PHFU for FY2015 is listed below:

335,031 Principal
153,823 Interest

\$ 488,854 Total debt service

Prepared by: RM
Sponsored by: Elaina Ball